

CITY OF ROCK RAPIDS
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2008

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City of Rock Rapids

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 1, 2008)		
Lawrence Lupkes	Mayor	January 1, 2008
Marlene Bowers	Council Member	January 1, 2008
Gary Broesder	Council Member	January 1, 2008
Doug Herda	Council Member	January 1, 2008
Carol Oliver	Council Member	January 1, 2010
Donald DeYong	Council Member	January 1, 2010
Jordan Kordahl	City Administrator, Clerk and Treasurer	Indefinite
Linda Trei	Deputy City Clerk	Indefinite
Linda McCormack	Librarian	Indefinite
Rhoda Lange	Library Trustee	July 1, 2009
Julie Metzger	Library Trustee	July 1, 2009
Michael Roetman	Library Trustee	July 1, 2009
Nancy DeJongh	Library Trustee	July 1, 2011
Trish Starrett	Library Trustee	July 1, 2011
Ben Brink	Library Trustee	July 1, 2013
Dennis Haselhoff	Library Trustee	July 1, 2013
Arnold Kwikkel	Airport Commissioner	Retired September 30, 2007
Mike Cleveringa	Airport Commissioner	June 1, 2011
John Stillson	Airport Commissioner	June 1, 2013
Michael R. Austin	City Attorney	Indefinite (Appointed)

City of Rock Rapids

Officials

<u>Name</u>	<u>Title</u>	<u>Term/ Term Expires</u>
(Beginning January 1, 2008)		
Jason Chase	Mayor	January 1, 2010
Donald DeYong	Council Member	January 1, 2010
Carol Oliver	Council Member	January 1, 2010
Marlene Bowers	Council Member	January 1, 2012
Heather Stubbe	Council Member	January 1, 2012
Joe Vander Zee	Council Member	January 1, 2012
Jordan Kordahl	City Administrator, Clerk and Treasurer	Indefinite
Linda Trei	Deputy City Clerk	Indefinite
Linda McCormack	Librarian	Indefinite
Rhoda Lange	Library Trustee	July 1, 2009
Julie Metzger	Library Trustee	July 1, 2009
Michael Roetman	Library Trustee	July 1, 2009
Nancy DeJongh	Library Trustee	July 1, 2011
Trish Starrett	Library Trustee	July 1, 2011
Ben Brink	Library Trustee	July 1, 2013
Dennis Haselhoff	Library Trustee	July 1, 2013
Steve Wells	Airport Commissioner	February 11, 2008 to June 1, 2009
Mike Cleveringa	Airport Commissioner	June 1, 2011
John Stillson	Airport Commissioner	June 1, 2013
Michael R. Austin	City Attorney	Indefinite (Appointed)

DE NOBLE & COMPANY PC

Certified Public Accountants

MEMBERS

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Rock Rapids, IA 51246

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Iowa Society - Certified Public Accountants

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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Rock Rapids, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City of Rock Rapids' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these primary government financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The financial statements referred to above include only the primary government of the City of Rock Rapids, Iowa, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which accounting principles prepared on the basis of accounting described in Note 1 require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Rock Rapids, Iowa, as of June 30, 2008, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, each major fund and the aggregate remaining fund information for the primary government of the City of Rock Rapids, Iowa, as of June 30, 2008, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2009 on our consideration of the City of Rock Rapids' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information for the primary government on pages 5 through 11 and 25 through 28 are not required parts of the basic primary government financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the primary government financial statements that collectively comprise the City of Rock Rapids' basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three fiscal years ended June 30, 2007 (which are not presented herein) and expressed unqualified opinions on those primary government financial statements which were prepared in conformity with an other comprehensive basis of accounting. Siebrecht Spitler & De Noble PC (Siebrecht Spitler & De Noble PC was formally dissolved and De Noble & Company PC is one of the two new companies that was formed directly from this dissolution) previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two fiscal years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those primary government financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic primary government financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic primary government financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic primary government financial statements taken as a whole.

De Noble & Company PC

De Noble & Company PC
Certified Public Accountants

June 29, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Rock Rapids provides this Management's Discussion and Analysis of its primary government financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 65.0%, or \$1,981,453, in fiscal year 2008 compared to fiscal year 2007. Capital grants, contributions and restricted interest decreased \$64,303, property and other city tax decreased \$77,357, and capital loan note proceeds increased \$2,204,000.
- Disbursements increased 9.3%, or \$254,746, in fiscal year 2008 compared to fiscal year 2007. Public works and debt service disbursements increased by \$141,449 and \$233,250, respectively; capital projects disbursements decreased by \$145,817.
- The City's total cash basis net assets from governmental activities increased 84.8%, or \$2,034,391, from June 30, 2007 to June 30, 2008. This increase is due primarily to capital loan note proceeds in the amount of \$2,550,000 during fiscal year 2008. This increase compares with the prior fiscal year increase of \$307,684 (capital loan note proceeds were \$346,000 during fiscal year 2007).

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic primary government financial statements and provides an analytical overview of the City's financial activities.

The Government-Wide Financial Statement consists of a Statement of Activities and Net Assets – Primary Government. This statement provides information about the activities of the City's primary government as a whole and presents an overall view of the City's finances.

The Fund Financial Statement tells how governmental services were financed in the short term as well as what remains for future spending. The Fund Financial Statement reports the City's primary government operations in more detail than the government-wide statement by providing information about the most significant primary government funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic primary government financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds of the City's primary government.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the primary government financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-Wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets – Primary Government reports information which helps answer this question.

The Statement of Activities and Net Assets – Primary Government presents the City's primary government net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets – Primary Government consists only of governmental activities. Business type activities, consisting of electric, water, wastewater, gas and communications, are conducted by the Rock Rapids Municipal Utilities and reported separately. Business type activities are financed primarily by user charges. To obtain the financial information on the Municipal Utilities, please contact the Municipal Utilities office. A copy of the Municipal Utilities' audit report is available for the public's review.

Governmental activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax, intergovernmental revenues, local option sales taxes, charges for services and donations finance most of these activities.

Fund Financial Statements

The primary government of the City of Rock Rapids uses governmental funds only. Proprietary funds are used to account for business type activities and, as noted above, are conducted by the Rock Rapids Municipal Utilities, which is reported separately.

Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: (1) the General Fund; (2) the Special Revenue Funds, such as Road Use Tax, Employee Benefits, Local Option Sales Tax, Urban Renewal Tax Increment and Library Memorial Trust; (3) the Debt Service Fund; (4) the Capital Projects Fund; and (5) the Permanent Funds, such as Library Endowment and Cemetery Perpetual Care. The governmental fund primary government financial statement provides a detailed, short-term view of the City's general government operations and

the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Primary Government.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. Over the past year, the City's cash balance for primary government governmental activities increased from \$2,397,741 to \$4,432,132. The analysis that follows focuses on changes in cash basis net assets for governmental activities.

Changes in Cash Basis of Net Assets of Governmental Activities

	Year Ending June 30,	
	2008	2007
Receipts:		
Program Receipts:		
Charges for Service	\$ 331,201	\$ 328,474
Operating Grants, Contributions and Restricted Interest	399,644	397,901
Capital Grants, Contributions and Restricted Interest	120,055	184,358
General Receipts:		
Property And Other City Tax	1,207,354	1,284,711
Tax Increment Financing	106,300	97,323
Local Option Sales Tax	169,188	174,219
Grants and Contributions Not Restricted		
To Specific Purpose	85,062	79,157
Unrestricted Investment Earnings	33,909	37,752
Capital Loan Note Proceeds	2,550,000	346,000
Other General Receipts	27,695	19,060
Total Receipts	5,030,408	2,948,955
Disbursements:		
Public Safety	237,072	208,849
Public Works	602,819	461,370
Culture And Recreation	489,112	512,154
Community And Economic Development	224,259	210,810
General Government	170,643	163,409
Debt Service	840,100	606,850
Capital Projects	432,012	577,829
Total Disbursements	2,996,017	2,741,271

Special Items (Receipt):

Capital Grant (Rock Rapids Municipal Utilities)	0	100,000
Increase in Cash Basis Net Assets	2,034,391	307,684
Cash Basis Net Assets Beginning of Year	2,397,741	2,090,057
Cash Basis Net Assets End of Year	\$ 4,432,132	\$ 2,397,741

The City's total receipts for governmental activities increased by 65.0%, or \$1,981,451. The total cost of all programs and services increased by \$254,746, or 9.3%, with no new programs added this year. The significant increase in receipts was mainly the result of proceeds received from the issuance of general obligation capital loan notes. This increase, in comparison to the previous fiscal year, was offset partially by a decrease in capital grants, contributions and restricted interest (due to having received during the prior fiscal year contributions for the sanitary sewer and rec trail projects from the Rock Rapids Municipal Utilities and playground equipment donations). A decrease in the regular taxable valuation, by approximately 2.9%, along with a decrease in the tax levy on regular property, from \$21.94936 to \$20.90546, also resulted in a decrease in property tax and other city taxes of \$77,357 during fiscal year 2008.

The cost of all governmental activities this year was \$2,996,017, compared to \$2,741,271 last year. The increase in disbursements during this fiscal year was mainly due to an airport construction project and increased debt service payments. This increase, in comparison to the previous fiscal year, was partially offset by a decrease in the purchase of capital equipment compared to the prior year. The amount taxpayers ultimately financed for these activities was only \$2,145,117, because some of the cost was paid by those who directly benefited from the programs (\$331,201) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$519,699). The City paid for the remaining "public benefit" portion of governmental activities with other receipts such as property taxes, tax increment financing, local option sales tax, general entitlements, unrestricted investment earnings and other miscellaneous revenues.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Rock Rapids completed the year, its primary government governmental funds reported a combined cash balance of \$4,432,132, an increase of \$2,034,391 above last year's total of \$2,397,741. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased by \$30,733, from \$823,157 to \$853,890 at June 30, 2008. This compares to a \$214,571 increase the prior fiscal year. Receipts and other financing sources decreased from the prior fiscal year by \$129,474 due to a decrease of \$80,000 in transfers from Local Option Sales Taxes, a decrease of \$17,364 in property tax and other city tax receipts and a \$25,573 reduction in donations from the public. Disbursements increased from the prior fiscal year by \$54,364 due to an increase of \$123,559 in airport construction and operating disbursements along with an increase of \$15,398 in fire department operating disbursements. These increases in disbursements were partially offset by a \$93,634 decrease in park disbursements (new playground equipment last fiscal year and operating costs are down from the prior fiscal year).

- The Road Use Tax Fund cash balance increased by \$45,734, from \$495,097 to \$540,831 at June 30, 2008. This compares to a \$57,267 increase the prior fiscal year. The increase in the fund cash balance during the fiscal year is due primarily to the City's cost control of public works activities. The City intends to use this money to continue funding street department operations, street maintenance programs and replacement of equipment.
- The Library Memorial Trust Fund cash balance decreased \$58,607, from \$371,894 to \$313,287 at June 30, 2008. This compares to a \$1,892 increase the prior fiscal year. This decrease in the fund cash balance during fiscal year 2008 was due to larger disbursements for capital improvements, purchase of equipment, and grant funded projects for the Library.
- The Debt Service Fund cash balance decreased \$131,053, from \$258,670 to \$127,617 at June 30, 2008. This compares to an \$11,466 increase the prior fiscal year. This decrease in the fund cash balance during fiscal year 2008 is due to early retirement and refinancing of callable bonds.
- The Capital Projects Fund cash balance increased \$1,964,109, from \$202,558 to \$2,166,667 at June 30, 2008. This compares to a \$62,622 decrease the prior fiscal year. The increase in the fund cash balance was due primarily to the issuance of \$2,350,000 in general obligation capital loan notes for capital projects. Disbursements decreased by \$145,817 during fiscal year 2008 due to decreases of \$317,218 and \$186,261 in the purchase of capital equipment and in sanitary sewer rehabilitation, respectively. These capital project decreases were partly offset by increases of \$246,687 and \$110,975 in trail construction and street construction, respectively.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its portion of the certified budget twice during the year, May 27 and June 9, 2008. The amendments resulted in a decrease of \$273,000 in total budgeted receipts, a decrease of \$932,000 in total budgeted disbursements, and an increase of \$900,000 in other financing sources for the City only portion of the budget. Please see the Rock Rapids Municipal Utilities audit report for budget amendments that affected the Utilities portion of the City's budget.

The reason for the decrease in budgeted operating receipts was due to delayed construction reimbursements. The reason for the increase in other financing sources was for the additional amount of general obligation capital loan notes issued.

The reason for the decrease in budgeted operating disbursements was identified as delay in startup of construction in the capital projects funds. This decrease was partly offset by increases in budgeted operating disbursements, identified as follows: (1) public safety – operating contingencies; depreciation reserve; (2) culture & recreation – library capital improvements; library grant projects; (3) debt service – refinancing of callable bonds.

Actual receipts came in \$205,492, or 7.7%, below budget for the City only portion of the certified budget. Significant variances in budget-to-actual receipts occur with intergovernmental receipts, which came in \$353,927, or 43.8%, below budget. This is due to (a) having budgeted for, but not received, federal and state grant funding for recreation trail and airport projects not yet completed, and (b) having budgeted for total receipts for Municipal Housing Agency, a separate legal entity, for which the City always includes an estimate for receipts and disbursements, but never any actual figures.

These items were partly offset by a non-budgeted contribution from Municipal Utilities for economic development.

Disbursements came in \$867,459, or 22.5%, below budget. All functions came in below budget for the City only portion of the certified budget. Disbursements for capital projects came in \$384,988, or 47.1%, below budget, due to delay in the start of the street construction project. The net change in cash for the fiscal year came in \$667,967 better than budgeted for the City only portion of the certified budget.

DEBT ADMINISTRATION

At June 30, 2008, the City had \$3,963,000 in notes, bonds and other long-term debt, compared to \$2,157,000 last year, as shown below:

Outstanding Debt at Year-End

<u>Type of Debt</u>	<u>June 30,</u>	
	<u>2008</u>	<u>2007</u>
General Obligation Notes and Bonds	\$ 3,475,000	\$ 1,571,000
Local Option Sales & Service Tax Revenue Bonds	173,000	226,000
Grant Anticipation Notes	<u>315,000</u>	<u>360,000</u>
Total Long Term Debt	<u>\$ 3,963,000</u>	<u>\$ 2,157,000</u>

The City Council issued \$2,550,000 in General Obligation Capital Loan Notes to finance street and sewer reconstruction projects and for early retirement of callable outstanding general obligation debt.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5 percent of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$3,648,000 (total debt of \$3,963,000 minus grant anticipation notes of \$315,000) is adequately below its constitutional debt limit of approximately \$5,200,000.

More detailed information about the City's long-term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The elected and appointed officials and citizens of the City of Rock Rapids considered many factors when setting the fiscal year 2009 budget, tax rates and fees that will be charged for various City activities. Among these factors is the growing disparity between the tax obligations of residential and commercial/industrial property.

Under the rollback factor, residential property was taxed at 45.6% of actual value for the 2008 fiscal year and decreases by 1.5%, to 44.1%, for the 2009 fiscal year. Although partly offset by a rollback from 100% to 99.7% for commercial property, industrial property remains taxed at 100%. The resulting disproportionate share of taxes levied on commercial and industrial property adds to the challenges of competing with bordering states in economic development activities. As a remedy, a

freezing of the residential rollback factor, coupled with a decrease in the commercial/industrial rollback factor, would bring the latter closer to the rates applicable to residential property.

These indicators were taken into account when adopting the budget for fiscal year 2009. In recent years, the City has worked to control tax rates by implementing certain structural changes and greater reliance on alternate sources of revenue. While regular taxable valuation decreases by \$373,201, or 0.7%, from fiscal year 2008 to 2009, the tax rate increase of 4.1% is projected to result in an increase of approximately \$52,000 in property and other city tax revenues (excluding local option sales taxes). This partially offsets the \$77,357 reduction in property and other city tax in fiscal year 2008. Except for capital improvements, the 2009 fiscal year budget provides for a deficit of approximately \$120,000. However, this budget also allows the City to maintain an adequate cash reserve due to having accumulated surplus cash reserves in recent years.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jordan Kordahl, City Administrator, 310 South 3rd Avenue, Rock Rapids, Iowa 51246.

City of Rock Rapids
Basic Primary Government Financial Statements

City of Rock Rapids

Statement of Activities and Net Assets – Cash Basis
Primary Government

As of and for the Year Ended June 30, 2008

Functions/Programs:	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	
Governmental Activities:				
Public Safety	\$ 237,072	7,567	21,917	(207,588)
Public Works	602,819	210,694	225,936	(166,189)
Culture and Recreation	489,112	87,175	42,701	(350,302)
Community and Economic Development	224,259	5,055	50,000	(169,204)
General Government	170,643	17,827	30,294	(122,522)
Debt Service	840,100	2,883	28,796	(743,421)
Capital Projects	432,012	0	0	(385,891)
Total Governmental Activities	\$ 2,996,017	331,201	399,644	(2,145,117)

General Receipts:

Property and Other City Tax Levied for:

General Purposes	662,768
Employee Benefits	132,218
Debt Service	412,368
Tax Increment Financing	106,300
Local Option Sales Tax	169,188
Grants and Contributions not Restricted to Specific Purposes	85,062
Unrestricted Interest on Investments	33,909
Grants	10,087
Perpetual Cemetery Care - Sale of Lots	10,650

General Obligation Capital Loan Note Proceeds

Sale of Assets

Miscellaneous

2,550,000
6,000
958

Total General Receipts

4,179,508

Change in Cash Basis Net Assets

2,034,391

Cash Basis Net Assets Beginning of Year

2,397,741

Cash Basis Net Assets End of Year

\$ 4,432,132

Cash Basis Net Assets

Restricted:

Road Use Tax (Streets)

Library Projects

Capital Projects

Debt Service

Other Purposes

Permanent Funds (Library Endowment & Cemetery Perpetual Care)

Unrestricted

\$ 540,831
313,287
2,166,667
127,617
385,830
44,010
853,890

Total Cash Basis Net Assets

\$ 4,432,132

See Notes to Financial Statements.

City of Rock Rapids

Statement of Cash Receipts, Disbursements, and Changes in Cash Balances
Governmental Funds
Primary Government

As of and for the Year Ended June 30, 2008

	Special Revenue							Total
	Road Use		Library Memorial Trust		Debt Service	Capital Projects	Nonmajor Governmental Funds	
	General	Tax						
Receipts:								
Property Tax	\$ 661,182	0	0	411,431	0	131,901	1,204,514	
Tax Increment Financing	0	0	0	0	0	106,300	106,300	
Other City Tax	1,586	0	0	937	0	169,505	172,028	
Licenses and Permits	10,685	0	0	0	0	0	10,685	
Use of Money and Property	64,700	3,878	14,223	28,796	7,131	0	118,728	
Intergovernmental	217,676	220,436	0	0	16,452	0	454,564	
Charges for Service	261,576	0	0	0	0	0	261,576	
Special Assessments	50	359	0	2,883	0	0	3,292	
Miscellaneous	34,134	4,519	5,880	65,000	22,538	10,650	142,721	
Total Receipts	1,251,589	229,192	20,103	509,047	46,121	418,356	2,474,408	
Disbursements:								
Operating:								
Public Safety	205,310	0	0	0	0	31,762	237,072	
Public Works	377,368	183,458	0	0	0	41,993	602,819	
Culture and Recreation	374,926	0	78,710	0	0	35,476	489,112	
Community and Economic Development	122,254	0	0	0	0	102,005	224,259	
General Government	146,998	0	0	0	0	23,645	170,643	
Debt Service	0	0	0	840,100	0	0	840,100	
Capital Projects	0	0	0	0	432,012	0	432,012	
Total Disbursements	1,226,856	183,458	78,710	840,100	432,012	234,881	2,996,017	

Excess (Deficiency) of Receipts	24,733	45,737	(58,607)	(331,053)	(385,891)	183,475	(521,609)
Over (Under) Disbursements							
Other Financing Sources:							
Sale of Capital Assets	6,000	0	0	0	0	0	6,000
Capital Loan Note Proceeds	0	0	0	200,000	2,350,000	0	2,550,000
Total Other Financing Sources	6,000	0	0	200,000	2,350,000	0	2,556,000
Net Change in Cash Balances	30,733	45,734	(58,607)	(131,053)	1,964,109	183,475	2,034,391
Cash Balances Beginning of Year	823,157	495,097	371,894	258,670	202,558	246,365	2,397,741
Cash Balances End of Year	\$ 853,890	540,831	313,287	127,617	2,166,667	429,840	4,432,132
Cash Basis Fund Balances							
Reserved for Debt Service	\$ 0	0	0	127,617	0	0	127,617
Unreserved:							
General Fund	853,890	0	0	0	0	0	853,890
Special Revenue Funds	0	540,831	313,287	0	0	385,830	1,239,948
Capital Projects Fund	0	0	0	0	2,166,667	0	2,166,667
Permanent Funds	0	0	0	0	0	44,010	44,010
Total Cash Basis Fund Balances	\$ 853,890	540,831	313,287	127,617	2,166,667	429,840	4,432,132

See Notes to Financial Statements.

City of Rock Rapids

Notes to Primary Government Financial Statements

June 30, 2008

(1) Summary of Significant Accounting Policies

The City of Rock Rapids is a political subdivision of the State of Iowa located in Lyon County. It was first incorporated in 1885 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services.

A. Reporting Entity

For financial reporting purposes, the City of Rock Rapids has included all funds, organizations, agencies, boards, commissions, and authorities of the primary government. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Rock Rapids (the primary government). As noted in the Independent Auditor's Report, the component units discussed below are not included in the financial statements. The primary government financial statements, because they do not include the financial data of component units of the City of Rock Rapids, do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Rock Rapids, Iowa, as of June 30, 2008, and the changes in cash basis financial position for the year then ended in conformity with the basis of accounting described here in Note 1.

Component Units – If it were not for the City of Rock Rapids preparing financial statements of the primary government only, the Rock Rapids Municipal Utilities and the Rock Rapids Municipal Housing Agency would be included as part of the City's reporting entity because of the significance of each organization's operational or financial relationship with the City. The Rock Rapids Municipal Utilities and the Rock Rapids Municipal Housing Agency would be presented as discretely presented component units in a separate column in the Statement of Activities and Net Assets – Cash Basis to emphasize that each is legally separate from the City, but are financially accountable to the City, or whose relationships with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete.

The Municipal Utilities is governed by a three-member board appointed by the Mayor and approved by the City Council and the Municipal Utilities operating budget is approved by the City Council. To obtain the financial information on the Municipal Utilities, please contact the Municipal Utilities' office. A copy of the Municipal Utilities' audit report is available for the

public's review. The Rock Rapids Municipal Housing Agency is governed by a five-member board appointed by the Mayor and City Council and the City has the ability to impose its will on the Housing Agency by influencing the programs, projects, activities and level of services performed/provided by the Housing Agency. To obtain financial information on the Housing Agency, please contact the Community Affairs Corporation/Municipal Housing office.

The City of Rock Rapids received \$174,026 from the Rock Rapids Municipal Utilities during the fiscal year ended June 30, 2008 (\$167,643 is intergovernmental receipts and \$6,383 is charges for service). The Rock Rapids Municipal Housing Agency paid the City of Rock Rapids \$10,295 for payment in lieu of taxes (intergovernmental receipt) during the fiscal year ended June 30, 2008.

Jointly Governed Organizations – The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Lyon County Assessor's Conference Board, Lyon County Joint E911 Service Board, Lyon County Emergency Management Commission, the Northwest Iowa Area Solid Waste Agency, the Lyon County Economic Development Consortium, and the Hazardous Material Response Commission (HAZMAT). During the fiscal year ended June 30, 2008, the City did not contribute any money to the Assessor, E911, Emergency Management, Economic Development Consortium and HAZMAT. Please see Note 8 for the amount paid to the Northwest Iowa Area Solid Waste Agency.

B. Basis of Presentation

Government-Wide Financial Statement – The Statement of Activities and Net Assets – Primary Government reports information on all of the nonfiduciary activities of the City's primary government. For the most part, the effect of interfund activity has been removed from this statement. This financial statement reports governmental activities which are supported to a significant extent by tax and intergovernmental revenues.

The Statement of Activities and Net Assets – Primary Government presents the City's primary government nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets – Primary Government demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statement – A separate financial statement is provided for the primary government governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statement. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Library Memorial Trust Fund is used to account for library projects financed by donations and investment income.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general obligation, local option sales and service tax, and grant anticipation long-term debt.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and/or construction of major capital equipment and facilities for the City.

C. Measurement Focus and Basis of Accounting

The City of Rock Rapids maintains its financial records on the basis of cash receipts and disbursements and the primary government financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the primary government financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City may fund certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. In these situations, it is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, disbursements for the City of Rock Rapids did not exceed the amounts budgeted in any function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute and its written investment policy to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Notes and Bonds Payable

Annual debt service/loan requirements to maturity for general obligation capital loan notes, grant anticipation capital loan note, and local option sales & service tax revenue bonds are as follows:

Year Ended June 30	General Obligation Capital Loan Notes		Grant Anticipation Capital Loan Note	
	Principal	Interest	Principal	Interest
2009	\$ 379,000	121,983	45,000	17,113
2010	381,000	110,281	50,000	14,727
2011	395,000	98,035	50,000	12,053
2012	335,000	84,612	55,000	9,353
2013	340,000	73,390	55,000	6,355
2014	230,000	61,602	60,000	3,330
2015	235,000	53,635	0	0
2016	220,000	45,160	0	0
2017	225,000	37,240	0	0
2018	235,000	28,802	0	0
2019	245,000	19,755	0	0
2020	255,000	10,200	0	0
Total	\$3,475,000	744,695	315,000	62,931

Year Ended June 30	Local Option Sales & Service Tax Revenue		Total	
	Bonds			
	Principal	Interest	Principal	Interest
2009	58,000	7,897	482,000	146,993
2010	25,000	6,243	456,000	131,251
2011	30,000	4,905	475,000	114,993
2012	30,000	3,285	420,000	97,250
2013	30,000	1,650	425,000	81,395
2014	0	0	290,000	64,932
2015	0	0	235,000	53,635
2016	0	0	220,000	45,160
2017	0	0	225,000	37,240
2018	0	0	235,000	28,802
2019	0	0	245,000	19,755
2020	0	0	255,000	10,200
Total	173,000	23,980	3,963,000	831,606

During the fiscal year ended June 30, 2008, the City issued \$2,550,000 in general obligation capital loan notes, redeemed principal on long-term debt of \$744,000, paid \$92,873 in interest on the long-term debt and paid \$3,227 in note/bond fees. The general obligation capital loan notes, general obligation bonds, grant anticipation capital loan note and local option sales & service tax revenue bonds were redeemed through the Debt Service Fund in the fiscal year ended June 30, 2008.

The grant anticipation capital loan notes are to be repaid from an annual contribution in a minimum amount of \$65,000 to the City of Rock Rapids from the Trustees of the James W. and Ella B. Forster Charitable Trust.

There were no specific resolutions that were noted providing for the issuance of the local option sales & service tax revenue bonds.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 3.90% of their annual covered salary and the City is required to contribute 6.05% of annual covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$28,327, \$26,773, and \$25,608, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2008, primarily relating to the General and Road Use Tax Funds, is as follows:

Type of Benefit	Amount
Vacation	\$30,495
Sick Leave	13,116
Total	<u>\$43,611</u>

All of an employee's vacation is paid upon retirement, termination or death. If an employee has ten or more years of service with the City, 15% of sick leave is paid upon retirement, termination or death. The amount of sick leave reported above only includes sick leave hours for employees that have attained the ten years or more of service requirement.

This liability has been computed based on rates of pay in effect at June 30, 2008.

(6) Risk Management

The City of Rock Rapids is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(7) Employee Health Insurance Coverage

The City of Rock Rapids provides group health insurance coverage for eligible employees through Wellmark Blue Cross and Blue Shield of Iowa. The City assumes liability for claims against the insurance deductible of up to \$250 under an individual policy and \$500 for a family policy. The City's expense for insurance premiums and any deductibles paid for health insurance coverage is accounted for in the appropriate fund.

(8) Intergovernmental Agreement

The City has entered into an agreement with the Northwest Iowa Area Solid Waste Agency, a political subdivision created in accordance with Chapter 28E of the Code of Iowa, for disposal of solid waste produced or generated from within the City. Payments under this agreement were \$11,250 for the fiscal year ended June 30, 2008.

State and federal laws and regulations require the Agency to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for

thirty years after closure. The closure and postclosure costs to the Agency have been estimated at \$1,915,013 as of June 30, 2008 and the portion of the liability that has been recognized by the Agency as of June 30, 2008 is \$1,001,699. The estimated remaining life of the landfill is 31 year and the capacity used at June 30, 2008 is approximately 53 percent. The Agency has begun to accumulate resources to fund these costs. As of June 30, 2008, assets of \$1,376,261 are restricted for these purposes. The Agency has fully demonstrated financial assurance for closure and postclosure case costs as required by Chapter 111 of the Iowa Administrative Code. No estimate has been made as to the possibility of any future assessments to the City.

(9) Conduit Community Development Block Grant (CDBG)

The City of Rock Rapids was acting as a conduit agent for a CDBG loan between a local business in Rock Rapids and the Iowa Department of Economic Development. The award date for this CDBG loan agreement was September 8, 2004. The terms of the loan included a forgivable portion in the amount of \$200,000 with a zero percent interest rate, and an additional \$6,000 to be paid to Northwest Iowa Planning and Development Commission for administrative costs. The forgivable portion of the loan was dependent upon the business attaining certain requirements relating to job creation. This loan was received by the City and passed through to a Rock Rapids business in August 2005.

The business has not fulfilled its job creation requirements by the required deadline and the Company is deemed to be in default on the \$200,000 loan to the Iowa Department of Economic Development due to non-compliance with the note provisions. The City of Rock Rapids has assigned its right, title and interest in and to the executed loan agreement and promissory note to the Iowa Department of Economic Development. This CEBA loan is not reported as a part of the City's long-term debt.

(10) Commitments

In January 2008, the City approved contributing \$20,000 to Rock Rapids Kids Club during each of the fiscal years ending June 30, 2009 and 2010 for purpose of economic development to be paid from the General Fund.

In February 2008, the City committed to contribute \$50,000 in matching funds in connection with its application to the USDA for a Rural Business Enterprise Grant for the purpose of establishing a Revolving Loan Fund for economic development. This fund was created in fiscal year ended June 30, 2009.

In April 2008, the City entered into a construction contract for \$2,363,355 for street and water distribution system improvements. As of June 30, 2008, the construction had been started but no payments had been made to the contractor. The Rock Rapids Municipal Utilities will reimburse the City for the costs related to the water mains portion of the project. The estimated cost to be paid to the City from the Rock Rapids Municipal Utilities is \$182,805, of which \$16,452 was paid to the City in fiscal year 2008.

(11) Subsequent Events

Events that have occurred subsequent to June 30, 2008 include the following:

- a. In July 2008, the City received a grant from the Iowa Department of Transportation to reimburse the City for 85% of the costs of the airport improvement project completed during fiscal year end 2008. The total amount received was \$114,307.
- b. In July 2008, the City transferred \$50,000 to a special account to provide matching funds to establish a new Revolving Loan Fund for economic development for the City.
- c. In August 2008, the City contributed \$20,000 to Rock Rapids Kids Club from the General Fund as approved in January 2008.
- d. During the fiscal year ended June 30, 2009, the City has paid a total of \$1,797,821 from the Capital Projects Fund on the contract for street and water distribution system improvements. Additional costs related to the project have been paid to various vendors totaling \$82,172.
- e. In December 2008, the City accepted a bid for the purchase of a new fire pumper for \$231,589.
- f. In February 2009, the City approved the 2009 airport improvement project. The estimated total cost of the project is approximately \$57,000. The City has guaranteed participating funds of 30%, or approximately \$17,100, towards the project. The remaining costs will be reimbursed to the City through a grant that the City was awarded in August 2008 for airport improvements.
- g. In March 2009, the City approved the purchase of two 2009 Ford F-750 pickups and two truck boxes for a total price of \$158,519.

City of Rock Rapids
Required Supplementary Information

City of Rock Rapids

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds Primary Government

Required Supplementary Information

Year Ended June 30, 2008

	Governmental Funds Actual	Budgeted Amounts		Final to Actual Variance
		Original	Final	
Receipts:				
Property Tax	\$ 1,204,514	1,190,868	1,190,868	13,646
Tax Increment Financing Collections	106,300	115,126	115,126	(8,826)
Other City Tax	172,028	161,048	161,048	10,980
Licenses and Permits	10,685	10,000	10,000	685
Use of Money and Property	118,728	134,220	134,220	(15,492)
Intergovernmental	454,564	958,491	808,491	(353,927)
Charges for Service	261,576	231,647	231,647	29,929
Special Assessments	3,292	126,000	3,000	292
Miscellaneous	142,721	25,500	25,500	117,221
Total Receipts	2,474,408	2,952,900	2,679,900	(205,492)
Disbursements:				
Public Safety	237,072	274,534	334,534	97,462
Public Works	602,819	655,946	655,946	53,127
Health and Social Services	0	1,000	1,000	1,000
Culture and Recreation	489,112	532,260	632,260	143,148
Community and Economic Development	224,259	332,722	332,722	108,463
General Government	170,643	189,819	189,819	19,176
Debt Service	840,100	585,195	900,195	60,095
Capital Projects	432,012	2,224,000	817,000	384,988
Total Disbursements	2,996,017	4,795,476	3,863,476	867,459
Deficiency of Receipts Under Disbursements	(521,609)	(1,842,576)	(1,183,576)	661,967
Other Financing Sources, Net	2,556,000	1,650,000	2,550,000	6,000
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	2,034,391	(192,576)	1,366,424	667,967
Balances Beginning of Year	2,397,741	1,976,010	3,662,834	(1,265,093)
Balances End of Year	\$ 4,432,132	1,783,434	5,029,258	(597,126)

City of Rock Rapids

Budgetary Comparison Schedule of
Receipts, Disbursements and Changes in Balances—
Budget and Actual (Cash Basis) – All Governmental Funds
Primary Government

Required Supplementary Information

Year Ended June 30, 2008

- Note: These figures do not reflect amounts included in the City's legally adopted budget for the Rock Rapids Municipal Utilities, which is a component unit that was audited separately. The amounts that were removed for the Rock Rapids Municipal Utilities from the original budget included \$4,686,913 in receipts (charges for service), \$4,587,403 in disbursements (business type/enterprises), balance beginning of year of \$3,743,178 and balance end of year of \$3,842,688. The amounts that were removed for the Rock Rapids Municipal Utilities from the final amended budget included \$4,263,850 in receipts (charges for service), \$5,058,757 in disbursements (business type/enterprises), balance beginning of year of \$3,743,178 and balance end of year of \$2,948,271.

City of Rock Rapids

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2008

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds (which there are none). The City's adopted budget includes the Rock Rapids Municipal Utilities, which is a legally separate component unit. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments decreased overall budgeted disbursements by \$460,646 (\$932,000 decrease for the City of Rock Rapids and \$471,354 increase for the Rock Rapids Municipal Utilities). The budget amendments are reflected in the final budgeted amounts.

The Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds – Primary Government does not reflect the amounts included in the City's budget for the Rock Rapids Municipal Utilities. Please see the Rock Rapids Municipal Utilities audit report for information concerning budget to actual figures for the Municipal Utilities.

During the year ended June 30, 2008, disbursements did not exceed the amounts budgeted in any function.

City of Rock Rapids
Other Supplementary Information

City of Rock Rapids

Schedule of Cash Receipts, Disbursements and Changes in Cash Balances Nonmajor Governmental Funds Primary Government

As of and for the Year Ended June 30, 2008

	Special Revenue		
	Employee Benefits	Local Option Sales Tax	Urban Renewal Tax Increment
Receipts:			
Property Tax	\$ 131,901	0	0
Tax Increment Financing	0	0	106,300
Other City Tax	317	169,188	0
Miscellaneous	0	0	0
Total Receipts	132,218	169,188	106,300
Disbursements:			
Operating:			
Public Safety	31,762	0	0
Public Works	41,993	0	0
Culture and Recreation	35,476	0	0
Community and Economic Development	6,358	0	95,647
General Government	23,645	0	0
Total Disbursements	139,234	0	95,647
Net Change in Cash Balances	(7,016)	169,188	10,653
Cash Balances Beginning of Year	141,521	50,078	21,406
Cash Balances End of Year	\$ 134,505	219,266	32,059
Cash Basis Fund Balances			
Unreserved:			
Special Revenue Funds	\$ 134,505	219,266	32,059
Permanent Funds	0	0	0
Total Cash Basis Fund Balances	\$ 134,505	219,266	32,059

See Accompanying Independent Auditor's Report.

Permanent		
Library Endowment	Cemetery Perpetual Care	Total
0	0	131,901
0	0	106,300
0	0	169,505
0	10,650	10,650
0	10,650	418,356
0	0	31,762
0	0	41,993
0	0	35,476
0	0	102,005
0	0	23,645
0	0	234,881
0	10,650	183,475
2,000	31,360	246,365
2,000	42,010	429,840
0	0	385,830
2,000	42,010	44,010
2,000	42,010	429,840

City of Rock Rapids

Statement of Indebtedness – Primary Government

Year Ended June 30, 2008

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General Obligation Capital Loan Notes:									
Mill Pond Drainage	August 1, 1997	5.00%	\$ 275,000	\$ 30,000	0	30,000	0	875	0
Street and Parking Lot Improvements	May 1, 2001	4.60-5.00%	475,000	130,000	0	130,000	0	6,477	0
Street and Waste Water Improvements and Drainage Project	May 1, 2003	2.85-3.75%	1,025,000	645,000	0	100,000	545,000	21,560	0
Storm Sewer, Drainage and Street Projects	August 10, 2004	3.30-4.50%	225,000	185,000	0	20,000	165,000	7,458	0
Capital Equipment	July 12, 2006	4.35%	346,000	281,000	0	66,000	215,000	12,224	0
Street Improvements	May 1, 2008	2.60-4.00%	2,550,000	0	2,550,000	0	2,550,000	0	0
Total			\$ 1,271,000	2,550,000	346,000	3,475,000	48,594	0	0
General Obligation Bonds:									
Swimming Pool Improvements	October 1, 2000	5.15-5.30%	\$ 650,000	300,000	0	300,000	0	16,219	0
Grant Anticipation Capital Loan Notes:									
Forster Community Building	June 1, 1998	5.20-5.55%	\$ 670,000	360,000	0	45,000	315,000	19,453	0
Local Option Sales & Service Tax Revenue Bonds:									
Forster Community Building	June 1, 1998	5.20-5.50%	\$ 290,000	160,000	0	20,000	140,000	8,607	0
Forster Community Building	Dec. 22, 1998	*1%	330,000	66,000	0	33,000	33,000	0	0
Total			226,000	0	53,000	173,000	8,607	0	0

*This is an optional interest rate that may or may not be charged at the discretion of the lender.

See Accompanying Independent Auditor's Report.

City of Rock Rapids

Bond and Note Maturities – Primary Government

June 30, 2008

General Obligation Capital Loan Notes

Year Ending June 30,	Street and Waste Water Improvements and Drainage Project		Storm Sewer Project		Capital Equipment		Street Improvements		
	Issued May 1, 2003		Issued Aug. 10, 2004		Issued July 12, 2006		Issued May 1, 2008		
	Interest Rates	Amounts	Interest Rates	Amounts	Interest Rates	Amounts	Interest Rates	Amounts	Total
2009	3.05%	\$ 100,000	3.55%	\$ 20,000	4.35%	\$ 69,000	2.60%	\$ 190,000	\$ 379,000
2010	3.25%	105,000	3.75%	20,000	4.35%	71,000	2.70%	185,000	381,000
2011	3.45%	110,000	4.00%	25,000	4.35%	75,000	2.90%	185,000	395,000
2012	3.60%	115,000	4.15%	25,000		0	3.10%	195,000	335,000
2013	3.75%	115,000	4.30%	25,000		0	3.20%	200,000	340,000
2014		0	4.40%	25,000		0	3.35%	205,000	230,000
2015		0	4.50%	25,000		0	3.50%	210,000	235,000
2016		0		0		0	3.60%	220,000	220,000
2017		0		0		0	3.75%	225,000	225,000
2018		0		0		0	3.85%	235,000	235,000
2019		0		0		0	3.90%	245,000	245,000
2020		0		0		0	4.00%	255,000	255,000
		\$ 545,000		\$ 165,000		\$ 215,000		\$ 2,550,000	\$ 3,475,000

Year Ending June 30,	Grant Anticipation Capital Loan Notes		Local Option Sales & Service Tax Revenue Bonds				
	Forster Community Building		Forster Community Building		Forster Community Building		
	Issued June 1, 1998		Issued June 1, 1998		Issued Dec. 22, 1998		
	Interest Rates	Amounts	Interest Rates	Amounts	Interest Rates	Amounts	Total
2009	5.30%	\$ 45,000	5.30%	\$ 25,000	*1.00%	\$ 33,000	\$ 58,000
2010	5.35%	50,000	5.35%	25,000		0	25,000
2011	5.40%	50,000	5.40%	30,000		0	30,000
2012	5.45%	55,000	5.45%	30,000		0	30,000
2013	5.50%	55,000	5.50%	30,000		0	30,000
2014	5.55%	60,000		0		0	0
	Total	\$ 315,000		\$ 140,000		\$ 33,000	\$ 173,000

* This is an optional interest rate that may or may not be charged at the discretion of the lender.

See Accompanying Independent Auditor's Report.

City of Rock Rapids

Schedule of Receipts by Source and Disbursements by Function –
All Governmental Funds
Primary Government

For the Last Six Years

	2008	2007	2006	2005	2004	2003
Receipts:						
Property Tax	\$ 1,204,514	1,281,476	1,143,078	1,181,996	1,188,762	1,004,626
Tax Increment Financing	106,300	97,323	58,816	65,530	59,727	25
Other City Tax	172,028	177,454	150,698	149,617	136,968	139,648
Licenses and Permits	10,685	10,183	10,309	10,032	7,618	7,680
Use of Money and Property	118,728	154,024	110,411	67,482	52,561	55,240
Intergovernmental*	454,564	569,711	631,132	502,983	722,305	559,510
Charges for Service	261,576	254,122	232,992	229,100	224,826	206,317
Special Assessments	3,292	4,565	3,414	3,915	25,120	107,964
Miscellaneous	142,721	153,097	277,009	123,193	185,300	136,677
Total Receipts	\$ 2,474,408	2,701,955	2,617,859	2,333,848	2,603,187	2,217,687
Disbursements:						
Operating:						
Public Safety	\$ 237,072	208,849	205,274	250,076	242,243	224,089
Public Works	602,819	461,370	507,579	449,503	601,982	412,233
Culture and Recreation	489,112	512,154	515,733	472,025	384,414	336,579
Community and Economic Development	224,259	210,810	332,804	239,382	370,103	58,903
General Government**	170,643	163,409	153,684	152,184	206,552	559,428
Debt Service	840,100	606,850	538,022	483,111	515,759	1,046,698
Capital Projects	432,012	577,825	61,206	183,434	95,876	616,287
Total Disbursements	\$ 2,996,017	2,741,271	2,314,302	2,229,715	2,416,929	3,254,217

*Intergovernmental includes a \$100,000 donation in both 2007 and 2003 from the Rock Rapids Municipal Utilities that were reported as "special items".

**General government includes a \$277,300 donation in 2003 to the Rock Rapids Municipal Utilities that was reported as a "special item".

City of Rock Rapids

**Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial
Statements Performed in Accordance with
*Government Auditing Standards***

DE NOBLE & COMPANY PC

Certified Public Accountants

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Independent Auditor's Report on **Internal Control over Financial Reporting and on Compliance and Other Matters** **Based on an Audit of Financial Statements Performed in Accordance with** **Government Auditing Standards**

To the Honorable Mayor and Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Rock Rapids, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic primary government financial statements listed in the table of contents, and have issued our report thereon dated June 29, 2009. Our report expressed unqualified opinions on the primary government financial statements which were prepared in conformity with an other comprehensive basis of accounting. However, the financial statements referred to above include only the primary government of the City of Rock Rapids, Iowa, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which accounting principles prepared on the basis of accounting described in Note 1 require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Rock Rapids, Iowa, as of June 30, 2008, and the changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Rock Rapids' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the primary government financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Rock Rapids' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Rock Rapids' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Rock Rapids' ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote

likelihood a misstatement of the City of Rock Rapids' financial statements that is more than inconsequential will not be prevented or detected by the City of Rock Rapids' internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the primary government financial statements will not be prevented or detected by the City of Rock Rapids' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items 08-A, B, E, F, G and I are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Rock Rapids' primary government financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are also described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the primary government financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Rock Rapids' responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Rock Rapids' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Rock Rapids, Iowa and other parties to whom the City of Rock Rapids may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Rock Rapids during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

De Noble & Company PC

De Noble & Company PC
Certified Public Accountants

June 29, 2009

City of Rock Rapids

Schedule of Findings

Year Ended June 30, 2008

Findings Related to the Primary Government Financial Statements:

SIGNIFICANT DEFICIENCIES:

- 08-A Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the handling of cash and numerous recordkeeping functions are not entirely separated among employees.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. An independent person could be used to regularly approve time sheets, check paychecks for accuracy, verify vacation and sick leave, examine employee expense reimbursements, periodically examine investments, review invoices and review the financial records.

Response – We will investigate the options we have within economic constraints and segregate duties to the extent possible with existing personnel.

Conclusion – Response acknowledged. The City could consider segregating duties to the extent possible by using Rock Rapids Municipal Utilities personnel to provide additional control through review of financial transactions and reports.

- 08-B Records of Accounts – The Library and Airport Boards maintain the accounting records pertaining to the operations of the library and the airport. These transactions and the resulting balances are not recorded in the Clerk's records. Chapter 384.20 of the Code of Iowa states in part that "a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose."

Recommendation – For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be recorded in the Clerk's records.

Response – The financial activity and balances of the Library and Airport Boards are subjected to annual audit and are handled by responsible individuals. No irregularities and only minor errors have ever been detected. If the Library Board is willing and able to provide their services for no remuneration, the City Clerk will continue to review the Library Board's reports that are provided on a monthly basis as a form of control. As of July 1, 2008, the City has assumed responsibility of the Airport's records.

Conclusion – Response acknowledged. The City of Rock Rapids is aware of our recommendation.

City of Rock Rapids

Schedule of Findings

Year Ended June 30, 2008

08-C Capital Assets/Inventory Records – A complete record of capital assets/inventory is not maintained.

Recommendation – To facilitate the proper insurance, maintenance and safeguarding of these assets, such records should be established. A reconciliation of all property, equipment and inventory should be taken by an independent person at least once a year and compared against capital assets/inventory records.

Response – The administrative office and public works department have compiled a complete record of mobile equipment inventory and are working toward compiling a complete record of capital fixed assets.

Conclusion – Response accepted. Please continue to make an effort to work on this.

08-D Off-Site Storage of Manual Records – Some manual records maybe should be duplicated and the copies stored at an off-site location.

Recommendation – Sensitive manual records should be evaluated for needed protection and stored at an off-site location.

Response – We will evaluate the manual records for what may need to be stored off-site.

Conclusion – Response accepted. Please do attempt to evaluate the manual records.

08-E Payroll Time Sheets/Time Cards – Payroll time sheets/time cards are not always being signed/formally approved by the employee's supervisor or completed by all employees.

Recommendation – The City should consider the need to require all City personnel to prepare daily time sheets or time cards. Payroll time sheets or time cards should be signed by the employee's supervisor to attest to the accuracy of hours worked.

Response – We have updated our payroll procedures and the employee handbook to address the issue of time sheets and time cards.

Conclusion – Response accepted.

08-F Job Rotations – Financial personnel's duties are not always rotated for a period of time each fiscal year.

City of Rock Rapids

Schedule of Findings

Year Ended June 30, 2008

Recommendation – The City should consider the need for financial personnel to annually take a minimum amount of vacation time and each person's duties should be done by another employee when a person is on vacation. The City needs to have individuals who are trained in an employee's position in case of an emergency to provide backup support.

Response – We will continue to work toward being able to rotate duties within economic constraints. We attempt to minimize any potential problems in this area through supervisory review of job duties.

Conclusion – Response acknowledged. Please attempt to rotate financial personnel's duties on a regular basis. Please make sure the Library addresses this also.

08-G Credit Card Supporting Documentation – We noted that a disbursement on a credit card bill did not have any supporting documentation/invoice attached.

Recommendation – All credit card charges should be supported by an actual receipt/invoice that supports the charge in detail.

Response – We will attempt to retain supporting documentation for all credit card charges.

Conclusion – Response accepted. Please stress the importance of needing to maintain detailed support for all credit card charges.

08-H Use of Community Center – The City is providing a discount on community center rental charges to individuals who volunteer as members of the "Citizen Volunteer Committee".

Recommendation – The City should consult with legal counsel to determine that there are no legal issues which should be considered with regards to this policy.

Response – We have referred this matter to legal counsel.

Conclusion – Response accepted. Please follow your legal counsel's advice.

08-I Management Procedures – Based on findings during the audit, we identified that there appears to be a lack of oversight by management over developing internal control, compliance and antifraud procedures and monitoring existing procedures that are in place to ensure the procedures are enforced.

City of Rock Rapids

Schedule of Findings

Year Ended June 30, 2008

Recommendation – City management needs to establish policies and procedures that ensure effective internal control, compliance and antifraud procedures are in place and monitored on a regular basis. City management needs to review any audit findings identified and assess the level of risk associated with each finding and incorporate this assessed level of risk into its development of policies and procedures.

Response – The City believes it has now completely resolved item 08-E and will continue to work on other items within time constraints.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Rock Rapids

Schedule of Findings

Year Ended June 30, 2008

Other Findings Related to Statutory Reporting:

- 08-1 Certified Budget – Disbursements during the fiscal year ended June 30, 2008 did not exceed the amount budgeted in any function.
- 08-2 Questionable Disbursements – We did not note any disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979. However, please see “Findings Related to the Primary Government Financial Statements: 08-G” for a possibly related comment.
- 08-3 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- 08-4 Business Transactions – No business transactions between the City and City officials or employees were noted.
- 08-5 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- 08-6 Council and Board Minutes – No transactions were found that we believe should have been approved in the Council, Airport or Library minutes but were not. However, the Airport is not formally approving monthly credit card processing fees in the minutes. Additionally, the Airport minutes do not show information sufficient to indicate the vote of each member as required by Chapter 21.3 of the Code of Iowa.

Recommendation – The City should take steps to make sure all minutes indicate the vote of each member in order to be in full compliance with the Code of Iowa. The Airport should also formally approve all claims in the minutes.

Response – The City Council has recently assumed responsibility for management of the Airport. All transactions and other official acts concerning the Airport are formally approved by the City Council and recorded in the City Council official records in full compliance with the Code of Iowa.

Conclusion – Response accepted.

City of Rock Rapids

Schedule of Findings

Year Ended June 30, 2008

- 08-7 Deposits and Investments – The City complied with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's written investment policy.

City of Rock Rapids

Staff

This audit was performed by:

David De Noble, CPA, Senior Auditor
James Fisher, CPA, Senior Auditor
Carmen Austin, CPA, Senior Auditor
Stephenie Korthals, Assistant Auditor

De Noble & Company PC
Certified Public Accountants